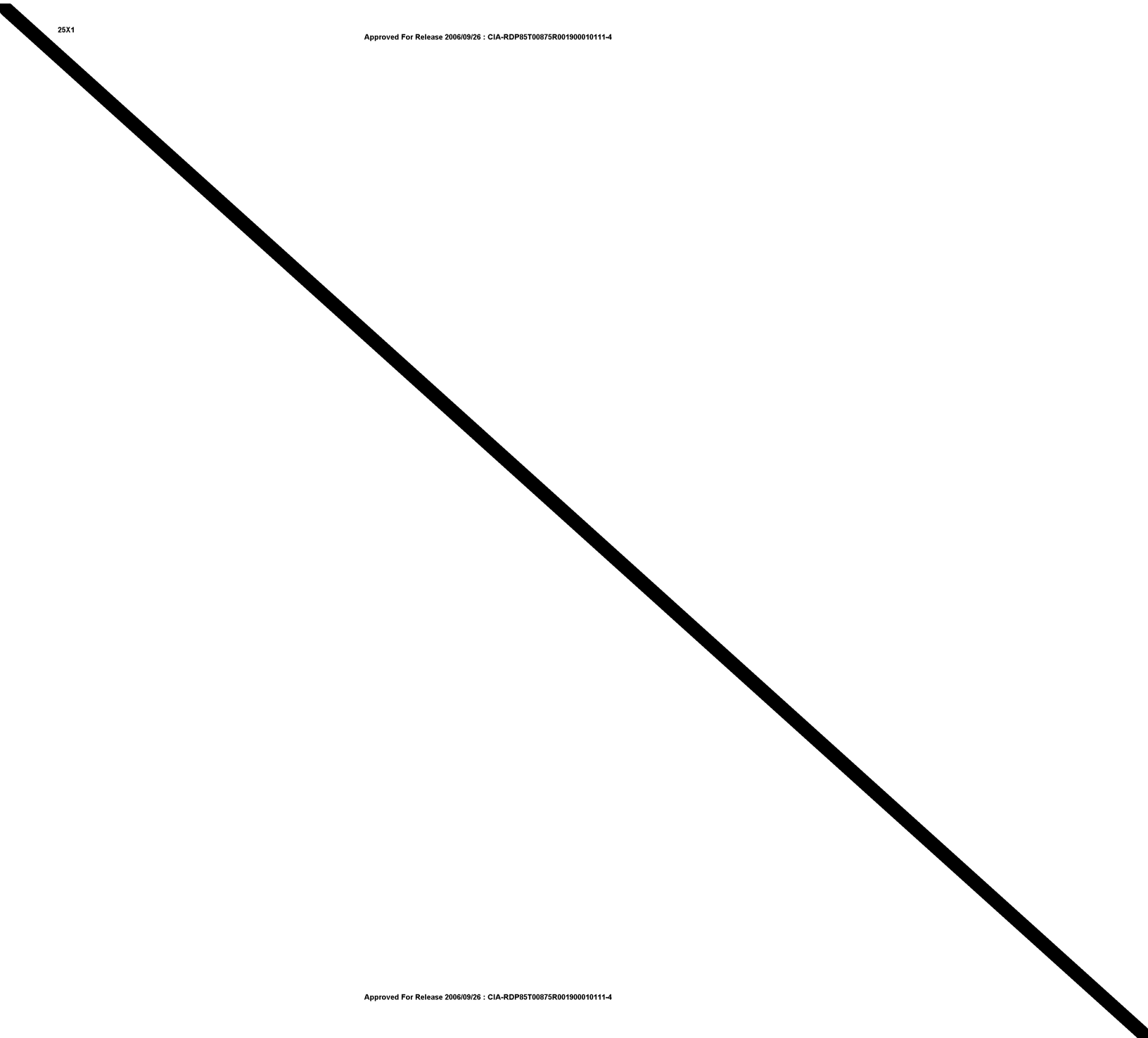

S-5823

CIA/OCR/S-05823-74

[redacted] 25X1

MEMORANDUM NO. 17 12 April 1974

MEMORANDUM FOR: [redacted] 25X1

SUBJECT: Transmittal of Material

[redacted] 25X1

25X1 [redacted] the attached papers dealing with (1) the economic impact of demobilization in the USSR, [redacted] 25X1

25X1 [redacted]

Attachments (2)
as stated

25X1

S-5823, The Economic Impact of Demobilization in the USSR. (C)

[redacted]

Distribution:
Orig & 2 - Addressee
X1 - St/P/C
1 - Ch, D/U; U/SR
[redacted] 25X1

25X1 [redacted]

SECRET

The Economic Impact of Demobilization in the USSR

S-5823

25X1

[redacted]

USSR Branch
6 March 1974

Introduction

1. SALT agreements could lead to a partial demobilization of the Soviet armed forces, thereby reducing the military burden and increasing the supply of workers for the civilian economy. The economic benefits accruing from a demobilization would depend on the number of servicemen released and on the ability of the economy to absorb new workers. The demobilizations carried out by the USSR in the 1950s provide an instructive background for the assessment of another demobilization. This report therefore first examines the magnitude of the military manpower drain since 1950 and the characteristics of the Soviet labor market. It then describes the results of previous demobilizations and analyzes the likely consequences of a demobilization in the 1970s.

Scope and Nature of the Military Manpower Drain

2. Since World War II, the USSR has maintained the world's largest armed forces. In 1950, the Soviet armed forces numbered about 5 million -- equivalent to 3 percent of the population and approximately 6 percent of the civilian labor force (Table 1). In contrast, fewer than two million persons were in the US armed forces that year, or about one percent of the population and 2 percent of the civilian labor force. By 1973 the difference had narrowed. The USSR's armed forces

CONFIDENTIAL

Table 1

US and USSR: Population, Civilian Labor Force, and Armed Forces

Million Persons

	1950	1955	1960	1965	1970	1973
US						
Total population	152.3	165.9	180.7	194.3	204.9	210.5
Civilian labor force	62.2	65.0	69.6	74.5	83.7	87.6
Armed forces	1.7	3.1	2.5	2.7	3.2	2.3
Conscripted servicemen	0	.2	.1	.1	.2	0
USSR						
Total population	180.1	196.2	214.3	230.9	242.8	250.0
Civilian labor force	92.4	99.4	107.3	114.7	120.9	126.9
Armed forces	5.6	5.4	2.9	3.2	3.7	3.9
Conscripted servicemen	4.7	4.1	2.2	2.4	2.8	2.9

CONFIDENTIAL

comprised less than 4 million persons while US armed forces had increased to 2.3 million.

3. In qualitative terms, the military manpower drain undoubtedly also has been greater in the USSR than in the US. Soviet military personnel, for example, have an average of 9 years of education compared with 7 years for the civilian labor force. Moreover, the demanding technological requirements of the armed forces result in the share of college graduates being twice as high in the military as in the civilian labor force. In the US on the other hand, college graduates represent a smaller share of the total armed forces than of the civilian labor force.

4. The brain drain is particularly intense in Soviet military R&D, which employs approximately 1½ million persons. Although most of these workers are civilians, the Ministry of Defense conscripts many scientists and technicians. Before 1968, conscripted scientists served an indefinite term at the discretion of the Ministry of Defense. Since 1968, the term has been limited to 3 years. In addition, a large network of regular military personnel supervise all R&D projects.

Employment Policy and the Labor Market

5. The tasks of the manpower planners in the USSR are three-fold: (1) to estimate the potential supply of labor from demographic data while making allowances for the requirements of the educational system and the armed forces, (2) to assure that the demands for labor implicit in national plans can be met from available manpower resources, and (3) to employ the available labor force as efficiently as possible.

6. Soviet labor policy is based on two principles: -- "Citizens of the USSR have the right to work..., and work in the USSR in a duty ... for every able-bodied citizen...."* Jobs are to be provided for all persons and all able-bodied persons should work. In general, this policy is enforced by incentives rather than coercion -- by the state's control of wages, hours, and working conditions.

7. Thus Soviet planners depend largely on "market forces" generated by a centrally-controlled wage system to allocate the nation's manpower resources.

* Articles 12 and 118 of the Soviet Constitution, Sbornik zakonodatel'nykh aktov o trude, Moscow, 1961, p. 3.

Workers generally are free to select their place of employment and to respond to higher wages and better working conditions offered in other jobs. Wage rates for individual occupations are fixed by the State Committee on Labor and Wages and are designed to attract manpower into high-priority sectors of the economy. In 1966, the Soviet Union established a State Committee for Labor Resource Utilization in each republic to improve the operation of the labor market. The new organizations act as labor exchanges -- matching jobs and workers, calculating manpower needs, distributing job information, retraining the unemployed, encouraging persons able but unwilling to work to take jobs, and resettling workers in remote areas. A Department of Labor Resources was created within the State Planning Commission in Moscow to coordinate the activities of these republic committees.

8. Nevertheless, Soviet planners have not depended exclusively on the wage system to distribute labor. Various agencies of the government have engaged to some extent in direct, and often compulsory, methods of allocating labor and enforcing restrictions on choice of jobs. The most extensive allocation system involves the job placement of graduating students. Since the late 1950s, local governments have been responsible for placing students

of working age who do not continue their education. To avoid idleness among the youth, hiring quotas can be imposed on local enterprises. At the same time, the USSR continues to assign graduates from universities and specialized secondary schools to jobs designated by planning authorities -- a policy that has been in effect since the early 1930s. The labor market operates tolerably well under this mixed system of market and planned allocation. When planners misjudge the availability of manpower, however -- as during military demobilizations -- the adjustments have not always gone smoothly.

The Experience of Demobilizations in the 1950s

9. Between 1952 and 1961 a series of demobilizations reduced the Soviet armed forces by nearly 4 million men (Table 2). The demobilization of over one million servicemen during 1953 and 1954 reflected a relaxation of international tensions following the Korean War. The demobilizations of the late 1950s and early 1960s were in response to Khrushchev's belief that strategic rocket forces made large ground forces unnecessary. Four-fifths of the personnel released from the services during 1953-61 came out of the ground forces.

Table 2

USSR: Armed Forces

Thousand persons

	Armed Forces	Change From Preceding Year
1952	6,857	435
1953	6,203	-654
1954	5,724	-479
1955	5,400	-324
1956	4,689	-711
1957	4,373	-316
1958	4,074	-299
1959	3,812	-262
1960	2,925	-887
1961	2,864	-61

10. Consequently, increases in the civilian labor force climbed from only 1 million per year between 1950 and 1955 to almost 2 million per year between 1955 and 1958 -- despite declining increments to the adult population. Employment gains largely benefitted agriculture, which added 1.2 million workers in 1955-56, and construction, which added workers during 1956-59 at nearly three times the rate of the early 1950s. There was no significant acceleration in the growth of industrial employment during the demobilizations.

11. In the 1950s, Soviet authorities tried to channel most discharged servicemen to manpower-short projects in remote areas. Massive propaganda campaigns were launched to enlist whole military units to work on farms in the

virgin lands, and at construction projects, mines, and industrial plants in the South and East. Discharged servicemen were offered preferential housing, bonuses, training, and other inducements. At the same time, they were prohibited from taking jobs in the large cities of the Western USSR.

12. At first the program was successful, but ultimately it generated allocation headaches. Many of the demobilized servicemen sent to jobs in remote areas became disillusioned, and left to compete for jobs in cities that already had redundant labor. By the late 1950s, and early 1960s, for example, about 1 million workers a year were leaving agriculture for city jobs.

13. The flood of manpower into Soviet cities resulted in widespread unemployment among teenagers who were unable to compete successfully in the job market with more experienced workers. The situation of the teenagers was aggravated by the fact that secondary schools were turning out over one million graduates annually in the late 1950s -- twice as many as in the early 1950s -- while full-time higher educational institutions were cutting back on enrollments. The predicament of the secondary school graduates was further aggravated by the fact that their schooling had been oriented toward general rather than vocational

training. Although the number of unemployed teenagers was never revealed, a Western source estimated that in the larger industrial cities, about 25% of the graduates from the secondary schools were without work for several months and that in some cities 10% of the graduates were still without work after nearly a year.*

14. Meanwhile, juvenile labor reforms made managers less willing to employ young workers. In August 1955, managers were forbidden to employ youths in overtime or night work, and the length of their annual paid vacations was extended from 12 to 30 days. In 1956, the length of the workday was shortened from eight hours to four hours for youths 15 years old and to six hours for those 16 and 17 years old. But they still had to be paid for 8 hours. In addition, workers enrolled in part-time and correspondence courses were granted additional paid leave of 15 days to take university entrance examinations, 20 to 40 days for laboratory work, 30 days for course examinations, and up to four months for preparation and defense of a thesis.

15. Although data are not sufficient to gauge accurately the net economic impact of the demobilizations, several general conclusions emerge. First, demobilized servicemen clearly played a substantial, if not vital, role in the development of the virgin lands. Agricultural production,

* A. Maxwell, "Juvenile Unemployment in the USSR," Soviet Survey, Oct.-Dec. 1958.

which stagnated during the early 1950s, grew at an average annual rate of nearly 7 percent during 1955-59 due mainly to production from the virgin lands. In addition, the virgin lands generally provided a hedge against national crop failure because poor crops in the traditional grain area of the European USSR frequently are offset by favorable crops in the virgin lands. Second, demobilizations during the 1950's reduced expenditures for military personnel by approximately 4 billion rubles a year, easing the military burden and permitting these monies to be channeled into new weapons. Moreover, the reduced size of the armed forces eased demand on the conscript system. A greater share of youths were able to continue in full-time education or join the civilian labor force. On the other hand, the unemployment among teenagers, to which demobilization contributed, somewhat offset the gains derived from demobilization.

Some Consequences of a New Demobilization

16. As persons born during the low birth rate years of World War II reached working age in the early 1960s, the growth in the supply of labor declined to about half the rate of the late 1950s. Concurrently with this slowdown, two other developments tended to restrict the labor

supply. First, the migration of rural workers to urban jobs largely halted by the mid-1960s as the number of rural youths diminished. This forced urban enterprises to find new workers in the urban population rather than in the countryside. Second, the armed forces have expanded by about 100,000 persons a year since 1963, partly to man the border with China. Thus, unemployment of teenagers ceased to be a problem in the early 1960s, and the labor market has been relatively tight during the past decade.

17. Currently, the Soviet labor force is adding approximately 2 million workers a year. The rules and institutions by which workers find and change jobs remain essentially unchanged from the late 1950s. Soviet planners, however, now stress the need to improve the effectiveness of the labor force:

- In 1965 the economic reform introduced the concept of profitability and attempted to force managers to minimize labor costs.
- In 1965-67 the economy switched from a 6 day, 41 hour workweek to 5 days, 41 hours in an effort to reduce absenteeism, increase productivity, and ease maintenance scheduling.
- The trend toward shortening hours worked was halted. Between 1955 and 1965 the average length of the work year declined by 16 percent. Since 1965 it has increased by about 2 percent.

- In 1967 the so-called Shchekino experiment introduced the first meaningful attempt to reduce redundant labor.

18. In part because of these measures, and in part because the Soviet economy is maturing, employment patterns are shifting. Compared with the 1960s, Soviet industry during 1971-73 added fewer than half as many workers each year. (Table 3). After decades of relative neglect, the service sector is the fastest growing in the economy, while employment in agriculture is declining gradually.

19. The Soviet armed forces now stand at nearly 4 million persons. If a SALT agreement resulted in a 10 percent demobilization, for example, the annual increment in the civilian labor force would stand to gain by about one-fourth. Under such a demobilization, Soviet planners would probably try to channel the released servicemen into selected activities, just as they did during the 1950s. Currently, the Soviet Union wants particularly to develop the oil and gas fields of the Far North and Siberia but has trouble finding workers for these areas. A military demobilization would help solve the problem since military personnel have been trained in some of the engineering and construction skills needed on the projects. As during the earlier demobilizations, however, planners would have to contend with the

Table 3

USSR: Annual Change in Employment

(Thousand Persons)

	Industry	Construction	Services *	Agriculture
1955	485	55	162	519
1956	718	404	153	717
1957	655	491	246	-983
1958	640	481	206	-1088
1959	673	426	260	-1337
1960	950	398	391	-975
1961	1197	222	445	-897
1962	860	-18	309	-379
1963	765	161	320	-463
1964	875	199	365	14
1965	1130	418	361	236
1966	1067	248	355	-110
1967	934	231	499	-258
1968	980	269	515	-237
1969	731	423	453	-416
1970	434	480	372	-403
1971	437	448	441	-170
1972	373	421	491	-163
1973	421	NA	NA	NA

* Includes retail trade, public dining, material technical supply, housing-communal economy, and personal services.

tendency of the demobilized servicemen to drift ultimately to large cities where employment opportunities in industry have been limited by policies designed to hold down labor costs. If this were to happen, unemployment could again result.

20. The economic gains from a demobilization would of course depend on its scope. A demobilization of the size sometimes discussed -- only a few hundred thousand servicemen -- certainly has a smaller potential than the much larger demobilization of the 1950s. Similarly, allocation problems would probably be far less now than in the 1950s. Nevertheless, a demobilization couldmake an economic contribution appreciably greater than the number of persons involved would suggest. Sources of additional manpower are less productive than they were in the 1950s while priority projects -- like those in Siberia -- still need a supply of young, disciplined workers who are used to living away from home under rugged circumstances.

Distribution: (S-5823)
Orig. & 1 - DD/OSR
1 - D/OER
1 - D/U
1 - SA/ER
1 - St/P
1 - [redacted] 25X1
2 - O/SR
OER/D/U/SR [redacted] (11 March 1974)

25X1